carriers to account for and keep their telecommunications plant accounts at original cost.[15] In notifying carriers that they should not adopt SFAS 144, the Commission concluded that "SFAS 144 should not be implemented for federal accounting purposes unless a rulemaking is completed to modify our current rules to accommodate new accounting."[16] This conclusion was based on the Commission's finding that its rules "do not provide a method to write down the cost of an asset or group of assets that will continue in use as required by SFAS 144."[17]

Despite the Commission's conclusions and findings in its *SFAS 144 Order*, Qwest believes that waiver of Section 32.2000(d)(1) is necessary and appropriate to comply with the Commission's depreciation waiver requirements. Moreover, Qwest is of the opinion that waiver of this section basically overcomes the problems that caused the Commission to order LECs not to adopt SFAS 144. The Commission should also keep in mind that any issues associated with complying with SFAS 144 requirements are not expected to arise with regularity. This is both due to SFAS 144's requirements for recording impairments and the nature of Qwest's regulated telecommunications business.[18] Thus, even with all the turmoil in the telecommunications industry since SFAS 144 went into effect for financial reporting purposes in 2001, Qwest has not recorded any impairments for regulated assets that continue in use (*i.e.*, for financial reporting purposes) nor does it anticipate recording any impairments in the foreseeable future.[19]

While the Commission is correct that there are conflicts between SFASs 143 and 144 and its Part 32 rules, these conflicts can be avoided by waiving the Part 32 provisions that Qwest has specified in its petition. Furthermore, in granting Qwest's waiver petition, the Commission should require adoption of SFASs 143 and 144 (as is allowed under the Commission's *SFAS 143*

[15] *See* 47 C.F.R. § 32.2000(d)(1).

[16] *SFAS 144 Order*, 18 FCC Rcd at 10005-06 ¶ 4.

[17] *Id.*

[18] An example of one of the rare impairments that Qwest has recognized on its financial books is associated with the 2002 Winter Olympic Games which were held in Salt Lake City, Utah. In that instance, Qwest installed significant amounts of regulated plant that could not be relocated or re-used after the completion of the Winter Olympic Games. Nor was it likely that the value of these assets would be recovered from future cash flows. Therefore, Qwest recognized that these assets were impaired and reflected this impairment on its financial books.

[19] Qwest acknowledges, if this petition is granted, that in certain instances its regulated accounts may no longer reflect the original costs of its assets. However, Qwest is of the opinion that the amounts recorded after a grant of its waiver petition will be a more accurate depiction of economic reality (that is one of the primary reasons that the Financial Accounting Standards Board adopted SFAS 142, 143 and 144). Furthermore, the role of costs in general (*i.e.*, either "original" costs or any other costs) has been greatly diminished in today's price cap environment versus the role of costs under rate base rate-of-return regulation. Lastly, as noted below, the rates that Qwest's customers pay will be unaffected by a grant of Qwest's petition.

and 144 Orders).[20] By doing so, the Commission will avoid conflict with its *SFAS 143 and 144 Orders* that presume all of the Commission's Part 32 rules remain in force, which will not be true with respect to Qwest if its petition for waiver is granted.

Potential Rate Impacts

While Commission staff has not inquired about potential rate impacts, it is worth noting that there will not be any with a grant of Qwest's petition. In fact, as noted above, the waiver criteria that the Commission adopted in the *USTA Depreciation Order* for price cap LECs preclude rate changes by requiring petitioners to "forego[] the opportunity to seek recovery of the write-off through a low-end adjustment, an exogenous cost adjustment, or an above-cap filing."[21] Thus, there will be no rate changes with a grant of Qwest's petition -- but waiver will allow Qwest to avoid complying with depreciation and other costly Commission rules that are no longer meaningful under price cap regulation.

Summary

In its petition, Qwest only asked for waiver of the Part 32 rules that are necessary to comply with the Commission's requirements for waiving its depreciation prescription requirements. Qwest believes that it has satisfied the Commission's waiver requirements and that any potential conflicts between a grant of its petition and the Commission's outstanding rules and orders can be avoided as discussed above.

Please contact me on 202-429-3122 if you have any further questions.

Sincerely,

/s/ Ed Henry

Enclosure

Copy to:
Amy Bender
Richard Kwiatkowski
Fatina Franklin
Ronald Kaufman
Steve Morris

---

[20] *SFAS 143 Order*, 17 FCC Rcd 25553 ¶ 4; *SFAS 144 Order*, 18 FCC Rcd at 10005-06 ¶ 4.

[21] *USTA Depreciation Order*, 15 FCC Rcd at 252-53 ¶ 25.

Depreciation Waiver Request

Net Book Cost Calculation – Part 32 Variance from GAAP

Description	Part 32 Section	FCC Requirement	GAAP Requirement
Proceeds from special construction projects	2000(a)(2);7100(a)	recorded as contra capital	recorded as revenue
Accounting for plant in service	2000(d)(1)	maintain original cost	recognize an impairment loss when carrying value of the asset is not recoverable from discounted cash flows (FAS 144)
Accounting for retirements and cost of removal	2000(g)(2)(ii);3100(c)	cost of retirement is included in net salvage estimate used in calculation of depreciation rate; cost of removal is charged to accumulated depreciation	cost of removal is charged to expense. If a legal obligation exists to remove an asset, the fair value of the obligation is capitalized and depreciated over remaining life of asset (FAS 143)
Short term disability costs	6720(j)	short term disability costs are expensed	short term disability costs are capitalized to the extent they are associated with capitalized wages and salaries
Goodwill	2007	goodwill is amortized over remaining life	goodwill is not amortized (FAS 142)
Asset transfers between affiliates *	27	When BOC sells asset to affiliate, recorded at the higher of FMV and net book cost. When BOC purchases asset from affiliate, recorded at the lower of FMV and net book cost.	all asset transfers are recorded at net book cost

** - At this time, Qwest is not seeking a waiver of section 32.27 going forward but will ask the Commission for appropriate relief on an individual case basis as necessary.*

Qwest

ATTACHMENT D

Qwest.
Spirit of Service™

Qwest
607 14th Street NW, Suite 950
Washington, DC 20005
Phone 202.429.3122
Fax 202.293.0561

Ed Henry
Director - Finance

EX PARTE

Filed electronically via ECFS

June 1, 2006

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street SW
Washington, DC 20554

Re: *In the Matter of Petition of Qwest Corporation for Waiver of Depreciation Regulation Pursuant to 47 C.F.R. § 1.3* – WC Docket No. 05-259

Dear Ms. Dortch:

On May 31, 2006, Ed Henry and Melissa Newman of Qwest, met with Steve Morris, Don Stockdale, Marcus Maher and Tamara Preiss of the Wireline Competition Bureau to discuss the above-captioned Petition for Waiver. During the meeting, Qwest discussed the waiver approval requirement for several CFR Part 32 sections that affect the calculation of depreciation rates and net book costs.

The attached documents were used to facilitate the discussion.

Sincerely,

/s/ Ed Henry

Attachments

Copy via email to:
Steve Morris
Don Stockdale
Marcus Maher
Tamara Preiss

Qwest Depreciation Waiver Petition
Hypothetical Impact of SFAS 143 Adoption

Telephone Pole Investment Example

Assumptions	Regulatory	GAAP
# of Poles Purchased	20	20
Cost per Pole	$ 500	$ 500
Total Pole Cost	$ 10,000	$ 10,000
Installation	$ 2,000	$ 2,000
Total Gross Investment	**$ 12,000**	**$ 12,000**
Depreciation Parameters		
Estimated Useful Life	24	24
Estimated Removal Cost %	-75%	-75%
Estimated Salvage Value	5%	5%
Net Salvage	-70%	-70%
Depreciation Rate Calculation		
% to be recovered	**170%**	**100%**
	100% - Future Net Salvage	100%
Depreciation Rate	**7.08%**	**4.17%**
	170% / Est Life	100% / Est Life
Annual Depreciation Reserve	***$ 850***	***$ 500***

Comparison of Regulatory and GAAP accounting
SFAS 143 Adoption Example

If Qwest is granted waiver approval but not permitted to adopt SFAS 143, depreciation rates and net book costs will not be identical for GAAP and Regulatory books immediately after the one-time adjustment is made

Qwest®

Spirit of Service™

Request for Waiver of FCC Depreciation Requirements

August 11, 2005

Depreciation Waiver Request

- ➢ **Background**
- ➢ **Waiver Conditions**
- ➢ **Affected Part 32 Sections**
- ➢ **Adjustment Calculation**
- ➢ **Review of Information Provided**

Qwest. Spirit of Service™

Depreciation Waiver Request
Background

- 1998 Biennial Review – Depreciation
  - USTA petition for forbearance
  - FCC response - 'USTA Depreciation Order'
    - Denied USTA's request
    - Reduced some filing requirements
    - Established waiver process
- 2000 Petition of Price Cap LECs (except Qwest)
  - Requested depreciation relief but did not agree to satisfy all conditions as stated
  - FCC denied request but re-affirmed waiver conditions

Qwest.
Spirit of Service

Depreciation Waiver Request

Conditions

In its response to the USTA forbearance request, the FCC established the following conditions that, if met, would satisfy the requirements for a waiver of the depreciation rules.

1. Adjust the net book costs on regulatory books to the level reflected on financial books through a below-the-line write-off
2. Use the same depreciation factors and rates for both regulatory and financial accounting purposes
3. Agree to not seek recovery of the write-off
4. Agree to submit information concerning depreciation accounts
5. Comply with section 1.3 – Commission's traditional waiver standard

Qwest
Spirit of Service™

Depreciation Waiver Request

Affected Part 32 Sections

The following sections of Part 32 affect the calculation of net book cost and depreciation reporting:

- 32.3000(g) and (h) - Calculation of depreciation rates and amortization
- 32.2000(a)(2) and 32.7100(a) - Proceeds from customer initiated construction projects
- 32.2000(d)(1) - Accounting for plant in service at cost
- 32.2000(g)(2)(ii) and 32.3100(c) - Accounting for asset retirements and cost of removal
- 32.6720(j) - Short term disability costs
- 32.2007 - Goodwill
- 43.43 - Depreciation reporting
- 32.27 - Asset transfers between affiliates

Qwest
Spirit of Service

Depreciation Waiver Request

Net Book Cost Calculation – Part 32 Variance from GAAP

Description	Part 32 Section	FCC Requirement	GAAP Requirement
Proceeds from special construction projects	2000(a)(2);7100(a)	recorded as contra capital	recorded as revenue
Accounting for plant in service	2000(d)(1)	maintain original cost	recognize an impairment loss when carrying value of the asset is not recoverable from discounted cash flows (FAS 144)
Accounting for retirements and cost of removal	2000(g)(2)(ii) 3100(c)	cost of retirement is included in net salvage estimate used in calculation of depreciation rate; cost of removal is charged to accumulated depreciation	cost of removal is charged to expense; if a legal obligation exists to remove an asset, the fair value of the obligation is capitalized and depreciated over remaining life of asset (FAS 143)
Short term disability costs	6720(j)	short term disability costs are expensed	short term disability costs are capitalized to the extent they are associated with capitalized wages and salaries
Goodwill	2007	goodwill is amortized over remaining life	goodwill is not amortized (FAS 142)
Asset transfers between affiliates *	27	When BOC sells asset to affiliate, recorded at the higher of FMV and net book cost. When BOC purchases asset from affiliate, recorded at the lower of FMV and net book cost.	all asset transfers are recorded at net book cost

* At this time Qwest is not seeking a waiver of section 32.27 going forward but will ask the Commission for appropriate relief on an individual case basis as necessary.

Qwest
Spirit of Service™

Depreciation Waiver Request
Calculation of the Adjustment

Date (1)	Net Plant Financial Reporting	Net Plant FCC Reporting	Increase/(Decrease) to FCC Net Plant (2)
August 31, 2005	$14,965,748	$14,584,500	$381,248

Notes:

1 – The data included in the adjustment is an estimate based on January through June 2005.

2 – The increase to FCC net plant is primarily due to differences in the depreciation rates that are used for regulatory and financial reporting purposes. The current FCC rates are higher than those used for financial reporting. The existing FCC rates were established between 1995 and 1997 when accumulated depreciation was much less than it is today. Since the financial reporting rates are updated annually and based on a higher level of accumulated depreciation, they are lower than the FCC rates.

Qwest. Spirit of Service™

Depreciation Waiver Request
Review of Information Provided

As part of the waiver request process, Qwest has provided the following:

- Declaration stating that we will satisfy the conditions set forth by the Commission
- Details of the estimated adjustment calculations
- Rationale for granting waiver of specific Part 32 sections that will ensure net book cost parity going forward
- Specific depreciation parameters used in calculating financial statement rates

****

Qwest believes that if it takes the steps outlined in its petition, it will have satisfied all of the conditions required to receive a waiver of the Commission's depreciation rules

Qwest. Spirit of Service™

ATTACHMENT E

Qwest
607 14th Street NW, Suite 950
Washington, DC 20005
Phone 202.429.3120
Fax 202.293.0561

Melissa E. Newman
Vice President-Federal Regulatory

Qwest.
Spirit of Service™

EX PARTE

Electronic Filing via ECFS

October 4, 2006

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street SW
Washington, DC 20554

Re: *In the Matter of Petition of Qwest Corporation for Waiver of Depreciation Regulation Pursuant to 47 C.F.R. § 1.3* – WC Docket No. 05-259

Dear Ms. Dortch:

On October 3, 2006, Melissa Newman and Ed Henry of Qwest met with Deena Shetler, Don Stockdale, Amy Bender and Al Lewis of the Wireline Competition Bureau regarding the above-captioned proceeding.

We discussed Qwest's ability to satisfy waiver condition number one. We also discussed FASB 143 which was issued after the FCC waiver prescription conditions were set forth. The attached documents were used to facilitate the discussion.

Sincerely,

/s/ Melissa E. Newman

Attachments (2)

Copy to:
Don Stockdale
Deena Shelter
Amy Bender
Al Lewis

Net Book Cost Comparison
Hypothetical Example

Assumptions:		*Regulatory* **Books**		*Financial* **Books**	
Qwest invests in poles					
Cost of Pole	$	500	$	500	
# of Poles		20		20	
Total Cost of Poles	$	10,000	$	10,000	
Installation	$	2,000	$	2,000	
Total Amount of Investment	$	12,000	$	12,000	
Depreciation Parameters					
Estimated Useful Life		24		24	
Estimated Removal Cost		-75%		-75%	
Estimated Salvage Value		5%		5%	
Depreciation Rate Calculation					
% to be recovered		170%		100%	*FAS 143 Impact*
		(100% - Net Salvage)			
Depreciation Rate		**7.08%**		**4.17%**	
		170% / Est Life		100% / Est. Life	
Annual Depreciation Expense	**$**	**850**	**$**	**500**	

Net Book Cost Calculation - After 5 years

Gross Plant	$	12,000	$	12,000
Accumulated Depreciation	$	(4,248)	$	(2,502)
Net Book Cost	**$**	**7,752**	**$**	**9,498**

Qwest Depreciation Waiver

Review of Condition #1

OCTOBER, 2006

Qwest
Spirit of Service™

Qwest Depreciation Waiver

- In the USTA Depreciation Order, the FCC set forth conditions that a carrier must meet in order to be granted relief from the FCC's depreciation requirements. Conditions #1 and 2 require that a carrier must adjust...
  - *"the net book costs on its regulatory books to the level currently reflected in its financial books by a below-the-line write-off"*
  - *and "use[s] the same depreciation factors and rates for both regulatory and financial accounting purposes."*

- These two conditions ensure that any disparity between the depreciation reserves on an ILEC's regulatory and financial books is eliminated and that these depreciation reserves stay the same going-forward by using identical depreciation rates and factors. While the Commission's Order references a "below-the-line write-off," the Commission's intent in adopting Condition #1 was to eliminate the disparity through a "below-the-line" adjustment – regardless of whether it was a write-up or write-down – and to ensure that interstate rates were not affected by any such adjustment.

- In the same section of the order, the Commission states that:
  - *"These conditions are important because they provide assurance that carriers do not engage in a practice that would disadvantage consumers and competition by using high financial depreciation rates with high regulatory net book costs or by applying inappropriate depreciation rates to regulatory plant accounts."*

Premise behind the Commission's waiver prescription process:

Provide a means for ILECs to use a single set of depreciation rates for both regulatory and financial purposes while at the same time protecting consumers.

Qwest.
Spirit of Service™

Qwest Depreciation Waiver

- Qwest agreed to satisfy Condition #1 as stated in its waiver petition
- Qwest provided the following example of the write-off amount in its original waiver request:

(000s) Date	Financial Reporting Net Plant	FCC Reporting Net Plant	Increase/(Decrease) to FCC Net Plant
January 1, 2005	16,049,186	16,049,227	(41)
August 1, 2005	14,965,748	14,584,500	381,248

- If the waiver would have been approved effective 1/1/2005, the write-off amount would have been a slight reduction to FCC net plant
- As time passes, FCC net plant continues to decrease compared to Financial Statement net plant due to higher monthly FCC depreciation expenses

A 2006 approval of Qwest's waiver means that the one-time adjustment will actually ***increase*** *the FCC reported net plant*

Qwest
Spirit of Service™

Qwest Depreciation Waiver

- The one-time adjustment to Regulatory net plant will have **no impact on interstate rates**
  - Qwest agreed to forgo any exogenous cost adjustment associated with the one-time adjustment (in accordance with waiver condition #3)

- The one-time adjustment to Regulatory net plant will have **no impact on state rates**
  - All states retain their own jurisdiction over depreciation rates and practices
  - All five rate-of-return states within Qwest's territory prescribe their own depreciation lives and factors

*Regardless of whether a one-time adjustment increases or decreases Regulatory net plant, **there is no impact on consumers.***

Qwest
Spirit of Service™

ATTACHMENT F

Qwest
607 14th Street NW, Suite 950
Washington, DC 20005
Phone 202.429.3120
Fax 202.293.0561

Melissa E. Newman
Vice President-Federal Regulatory

Qwest
Spirit of Service™

EX PARTE

Electronic Filing via ECFS

November 17, 2006

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street SW
Washington, DC 20554

Re: *In the Matter of Petition of Qwest Corporation for Waiver of Depreciation Regulation Pursuant to 47 C.F.R. § 1.3* – WC Docket No. 05-259

Dear Ms. Dortch:

On November 17, 2006, Melissa Newman and Phil Grate, in person, and Timothy Boucher, Betty Knapp and Glenda Weibel, by telephone, all of Qwest, and Jim Hannon, by phone, representing Qwest, met with Don Stockdale, Al Lewis, Deena Shetler, Jay Atkinson and Amy Bender of the Wireline Competition Bureau regarding the above-captioned proceeding.

The attached documents were used as the basis for discussion.

Sincerely,

/s/ Melissa E. Newman

Attachments (2)

Copy to:
Don Stockdale
Al Lewis
Deena Shetler
Jay Atkinson
Amy Bender

Qwest Depreciation Waiver

WC Docket No. 05-259

November 17, 2006

Qwest

Spirit of Service℠

Qwest Depreciation Waiver Petition
WC Docket No. 05-259

- There is no possibility of over recovery by any carrier in the federal jurisdiction following the adoption of FAS 143 in conjunction with the waiver prescription process.
  - The FCC's waiver guidelines clearly indicate that only price cap carriers such as Qwest can take advantage of the depreciation waiver prescription process.
  - Costs of removal that will be expensed under FAS 143 have no impact on rates under the FCC's price cap plan.

- *Louisiana Public Service* limits the scope of any FCC depreciation waiver to the interstate jurisdiction.

- State jurisdictions can and will prevent Qwest from over recovering cost of removal charges.
  - Cost of removal is <u>irrelevant</u> in states that do not rely on rate-of-return regulation because cost of service does not determine rates.
  - Cost of removal is <u>relevant</u> in states that rely on rate-of-return regulation but is subject to regulatory control and oversight.